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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

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FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/16 AND ENDING 12/31/16
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Suntrust Investment Services
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.) INC

OFFICIAL USE ONLY
FIRM I.D. NO.

303 Peachtree Center Avenue

(No. and Street)

Atlanta

GA

30303

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Sarah Rich

404-813-5604

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ernst & Young LLP

(Name - if individual, state last, first, middle name)

55 Ivan Allen Blvd, Suite 1000 Atlanta

GA

30308

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:



Certified Public Accountant



Public Accountant



Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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RMS

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**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

**SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)
Year Ended December 31, 2016
With Report of Independent
Registered Public Accounting Firm**

OATH OR AFFIRMATION

I, Sarah Rich, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of SunTrust Investment Services, Inc., as of December 31, 2016, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Sarah Rich

Signature

Chief Financial Officer

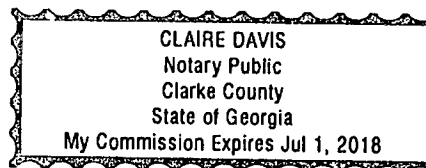
Title

[Signature]

Notary Public

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☒ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.



****For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Consolidated Financial Statements and Supplemental Information

Year Ended December 31, 2016

Contents

Report of Independent Registered Public Accounting Firm.....	1
Financial Statements	
Consolidated Statement of Financial Condition	2
Consolidated Statement of Operations.....	3
Consolidated Statement of Changes in Shareholder's Equity	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements.....	6
Supplemental Information	
Schedule I – Computation of Net Capital and Aggregate Indebtedness Pursuant to Rule 15c3-1 of the Securities and Exchange Commission.....	18
Schedule II – Computation of Determination of Reserve Requirements Pursuant to Rule 15c3-3 of the Securities and Exchange Commission.....	22
Schedule III – Information Relating to Possession or Control Requirements Pursuant to Rule 15c3-3 of the Securities and Exchange Commission.....	23



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Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Shareholder and Board of Directors of
SunTrust Investment Services, Inc.

We have audited the accompanying consolidated statement of financial condition of SunTrust Investment Services, Inc., (the Company) as of December 31, 2016, and the related consolidated statements of operations, changes in shareholder's equity and cash flows for the year then ended that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SunTrust Investment Services, Inc. at December 31, 2016, and the consolidated results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying information contained in Schedules I, II, and III has been subjected to audit procedures performed in conjunction with the audit of the Company's consolidated financial statements. Such information is the responsibility of the Company's management. Our audit procedures included determining whether the information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information. In forming our opinion on the information, we evaluated whether such information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities Exchange Act of 1934. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

February 27, 2017

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Consolidated Statement of Financial Condition

December 31, 2016

Assets

Cash and cash equivalents	\$ 66,733,193
Securities segregated under Federal and other regulations	4,509,009
Securities owned	7,282
Commissions receivable	2,979,638
Furniture, equipment, and leasehold improvements, less accumulated depreciation and amortization of \$6,690,741	1,164,816
Goodwill	42,706,365
Prepaid assets	41,220,132
Current income tax receivable from Parent	1,412,174
Other assets	2,391,084
Total assets	<u>\$ 163,123,693</u>

Liabilities and shareholder's equity

Liabilities:

Accrued compensation and benefits	\$ 19,269,458
Deferred income tax payable to Parent	6,271,220
Payable to Parent	1,579,554
Accrued other expenses	5,447,552
Total liabilities	<u>32,567,784</u>

Shareholder's equity:

Common stock, \$1 par value; 52,125 shares authorized 52,125 shares issued and outstanding	52,125
Additional paid-in capital	93,944,723
Retained earnings	36,559,061
Total shareholder's equity	<u>130,555,909</u>
Total liabilities and shareholder's equity	<u>\$ 163,123,693</u>

The accompanying notes are an integral part of these financial statements.

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Consolidated Statement of Operations

Year Ended December 31, 2016

Revenues	
Commissions	\$ 169,613,653
Investment management income	124,775,171
Other income	9,735,855
Total revenue	<u>304,124,679</u>
Expenses	
Compensation and benefits	188,050,758
Expenses paid to related parties	90,007,620
Clearing expense	32,491,819
Computer services	2,780,583
Legal, consulting, and examination fees	4,868,287
Other expenses	8,781,830
Occupancy and equipment	1,097,021
Office expense	1,316,228
Total expenses	<u>329,394,146</u>
Income before taxes	(25,269,467)
Income tax benefit	9,576,241
Net loss	\$ (15,693,226)
Total other comprehensive income	-
Total comprehensive loss	<u><u>\$ (15,693,226)</u></u>

The accompanying notes are an integral part of these financial statements.

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Consolidated Statement of Changes in Shareholder's Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance, December 31, 2015	\$ 52,125	\$ 93,944,723	\$ 52,252,287	\$ 146,249,135
Distribution to Parent	—	—	—	—
Contribution from Parent	—	—	—	—
Net loss	—	—	(15,693,226)	(15,693,226)
Balance, December 31, 2016	<u>\$ 52,125</u>	<u>\$ 93,944,723</u>	<u>\$ 36,559,061</u>	<u>\$ 130,555,909</u>

The accompanying notes are an integral part of these financial statements.

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Consolidated Statement of Cash Flows

Year Ended December 31, 2016

Cash flows used in operating activities	
Net loss	\$ (15,693,226)
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	541,830
Deferred tax benefit	(113,911)
(Increase) decrease in operating assets:	
Securities segregated under Federal and other regulations	15,195
Securities owned	(1,189)
Commissions receivable	(237,607)
Prepaid assets	(4,987,548)
Other assets	(893,993)
Increase (decrease) in operating liabilities:	
Accrued compensation and benefits	278,964
Income tax payable to Parent	62,573
Payable to Parent	577,565
Accrued other expenses	5,290,341
Net cash used in operating activities	<u>(15,161,006)</u>
Cash flows used in investing activities	
Purchases of furniture and equipment	<u>(222,741)</u>
Net cash used in investing activities	<u>(222,741)</u>
Cash flows used in financing activities	
Contribution from Parent	—
Distribution to Parent	—
Net cash used in financing activities	<u>—</u>
Net decrease in cash and cash equivalents	(15,383,747)
Cash and cash equivalents, beginning of year	82,116,940
Cash and cash equivalents, end of year	<u><u>\$ 66,733,193</u></u>
Supplemental cash flow information	
Cash paid for income taxes to Parent	<u><u>\$ —</u></u>

The accompanying notes are an integral part of these financial statements.

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Notes to Consolidated Financial Statements

1. Organization

SunTrust Investment Services, Inc. (the Company or STIS) is a broker-dealer registered with the Securities and Exchange Commission (the SEC) and the Financial Industry Regulatory Authority (FINRA). The Company is a wholly owned subsidiary of SunTrust Bank Holding Company, which is a wholly owned subsidiary of SunTrust Banks, Inc. (the Parent or STI). The Company acts as an introducing broker-dealer offering full-service and discount brokerage services in various equity and debt securities, mutual funds, unit investment trusts, insurance and annuity products, and individual retirement accounts primarily to retail customers of SunTrust Bank. SunTrust Bank is a subsidiary of SunTrust Bank Holding Company that provides deposit, credit, trust, and investment services. During 2016, STIS established a wholly-owned subsidiary, SunTrust Advisory Services, LLC (STAS), which is a Registered Investment Advisor with the SEC. Activity in this entity was de minimis for the year ended December 31, 2016.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The Consolidated Financial Statements have been prepared in accordance with U.S. GAAP and include the accounts of the Company and its subsidiary after elimination of significant intercompany accounts and transactions. In the opinion of management, all adjustments, consisting only of normal recurring adjustments that are necessary for a fair presentation of the results of operations in these consolidated financial statements, have been made.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from those estimates.

Cash and Cash Equivalents

The Company has defined cash and cash equivalents as highly liquid investments with original maturities of less than three months that are not held for sale in the ordinary course of business. Included in cash and cash equivalents at December 31, 2016, is cash of \$18,925,438 at SunTrust Bank and \$47,807,755 of money market funds.

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Notes to Consolidated Financial Statements

Securities Segregated Under Federal and Other Regulations

At December 31, 2016, total securities of \$4,509,009 have been segregated in a special reserve account at SunTrust Bank for the exclusive benefit of customers of the Company under SEC Rule 15c3-3.

Furniture, Equipment, and Leasehold Improvements

Furniture and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the assets' estimated useful lives. Maintenance and repairs are charged to expense as incurred and included in the consolidated statement of operations in occupancy and equipment expense. Leasehold improvements are capitalized and amortized over the lesser of the economic useful life of the improvement or the term of the lease.

	<u>Useful Life</u>
Leasehold improvements	1–30 years
Furniture and equipment	1–20 years

Revenue Recognition

The Company places all trades through an unaffiliated clearing broker. The clearing broker collects the gross brokerage commissions from customers and remits the net brokerage commissions to the Company based on agreed-upon terms. Revenues are recorded on a trade-date basis and included in commissions in the accompanying consolidated statement of operations.

The Company recognizes fee income earned from investment advisory services which is calculated per contracted percentage fees based on current fair value of assets under management. This revenue which is recognized as services are provided is recorded as investment management income in the accompanying consolidated statement of operations.

Secondary trading transactions, which consist primarily of riskless principal fixed income and unit investment trust trades, and related gains, primarily mark-ups on the trades, and losses are recorded on a trade-date basis in commissions revenue in the accompanying consolidated statement of operations.

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Notes to Consolidated Financial Statements

The Company recognizes fee income earned from the trading activity associated with various mutual fund groups. This fee income consists of administrative services fees; which include recordkeeping, reporting, and processing services. The fees are included in commissions revenue in the accompanying consolidated statement of operations. Other income primarily consists of referral fees.

Customer Accounts

The clearing broker maintains all customers' accounts, receives cash on purchases, and distributes cash on sales. The Company records commissions receivable for its share of commissions charged to customers.

Prepaid Assets

The Company records prepaid assets at the transaction date which are amortized on a straight line basis over the remaining useful life of the asset. Prepaid assets relating to advances are amortized over the period of expected future revenue generation. The Prepaid assets generally relate to incentive bonuses paid to advisors upon hire.

Expense Paid to Related Parties

Affiliates of the Company provide services to STIS in accordance with various agreements. These services include finance, human resources, facilities management, etc. The Company pays these affiliates for the services it receives.

Income Taxes

The provision for income taxes is based on income and expense reported for financial statement purposes after adjustment for permanent differences. Deferred income tax assets and liabilities result from differences between the timing of the recognition of assets and liabilities for financial reporting purposes and for income tax purposes. These assets and liabilities are measured using the enacted federal and state tax rates and laws that are expected to apply in the periods in which the deferred tax assets or liabilities are expected to be realized. Subsequent changes in the tax laws require adjustment to these assets and liabilities with the cumulative effect included in the provision for income taxes for the period in which the change is enacted. A valuation allowance is recognized for a deferred tax asset if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. In computing the income tax provision, the Company evaluates the technical merits of its income tax positions

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Notes to Consolidated Financial Statements

based on current legislative, judicial and regulatory guidance. Interest and penalties related to the Company's tax positions are recognized as a component of the income tax provision. For additional information on the Company's activities related to income taxes, see Note 9, "Income Taxes."

The Company is included in the consolidated federal income tax return and various consolidated or combined state income tax returns filed by SunTrust Banks, Inc. In accordance with the Tax Allocation Agreement applicable to SunTrust Banks, Inc. and each of its subsidiaries, the Company's income taxes are calculated as if the Company filed separate income tax returns with appropriate adjustments to properly reflect the impact of a consolidated filing. Payments to tax authorities are made by SunTrust Banks, Inc.

Goodwill

The Company reviews goodwill on an annual basis for impairment and as events occur or circumstances change that would more-likely-than-not reduce the fair value below its carrying amount. No impairment of goodwill was recorded in 2016.

3. Pending Accounting Pronouncements

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
<i>Standards Not Yet Adopted</i>			
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities	The ASU amends ASC Topic 825, Financial Instruments. Overall, and addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The main provisions require investments in equity securities to be measured at fair value through net income, unless they qualify for a practicability exception, and require fair value changes arising from changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option to be recognized in other operations. With the exception of disclosure requirements that will be adopted prospectively, the ASU must be adopted on a modified retrospective basis.	January 1, 2018 Early adoption is permitted beginning January 1, 2016 or 2017 for the provision related to changes in instrument-specific credit risk for financial liabilities under the FVO.	The Company is evaluating the impact of this ASU on the Consolidated Financial Statements and related disclosures; however, the impact is not expected to be material.

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Notes to Consolidated Financial Statements

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
ASU 2016-02, Leases	The ASU creates ASC Topic 842, Leases, and supersedes Topic 840, Leases. Topic 842 requires lessees to recognize right-of-use assets and associated liabilities that arise from leases, with the exception of short-term leases. The ASU does not make significant changes to lessor accounting; however, there were certain improvements made to align lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. There are several new qualitative and quantitative disclosures required. Upon transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach.	January 1, 2019 Early adoption is permitted.	The adoption of this ASU will result in an increase to the Consolidated Statement of Financial Condition for right-of-use assets and associated lease liabilities for operating leases in which the Company is the lessee. The Company is evaluating the other effects of adoption on the Consolidated Financial Statements and related disclosures.
ASU 2014-09, Revenue from Contracts with Customers ASU 2015-14, Deferral of the Effective Date ASU 2016-08, Principal versus Agent Considerations ASU 2016-10, Identifying Performance Obligations and Licensing ASU 2016-12, Narrow Scope Improvements and Practical Expedients ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers	These ASUs supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of the ASUs is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASUs may be adopted either retrospectively or on a modified retrospective basis to new contracts and existing contracts, with remaining performance obligations as of the effective date.	January 1, 2018 Early adoption is permitted beginning January 1, 2017.	The Company is evaluating the anticipated effects of these ASUs on the Consolidated Financial Statements and related disclosures. The Company has conducted a comprehensive scoping exercise to determine the revenue streams that are in the scope of these updates. Preliminary results indicate that certain commission revenue streams are in scope of these updates. Preliminary findings indicate that there may be some changes in gross versus net presentation based on principal versus agent guidance within these updates; the materiality of these changes is still being assessed. The Company plans to adopt the standards beginning January 1, 2018 and expects to use the modified retrospective method of adoption.

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Notes to Consolidated Financial Statements

4. Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements* (ASC Topic 820), defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, income or cost approach, as specified by ASC Topic 820, are used to measure fair value.

The fair value hierarchy priorities the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 – Assets or liabilities valued using unadjusted quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date, such as publicly-traded instruments or futures contracts.
- Level 2 – Assets and liabilities valued based on observable market data for similar instruments.
- Level 3 – Assets or liabilities for which significant valuation assumptions are not readily observable in the market; instruments valued based on the best available data, some of which is internally developed, and considers risk premiums that a market participant would require.

The Company's financial instruments, which are included in the accompanying consolidated statement of financial condition, are either measured at quoted market prices or are short-term in nature. As a result, the carrying amounts reported approximate their estimated fair values at December 31, 2016. Money market funds of \$47,807,755, included in cash and cash equivalents, and US Treasuries of \$4,509,009, included in securities segregated under federal and other regulations, are valued using quoted prices in active markets and are classified as Level 1 assets in accordance with ASC Topic 820. The other securities owned includes \$7,282 of non-marketable securities which are valued based on the best available data provided by an unrelated third party in order to approximate fair value and are considered Level 3 assets. The total amount of gains relating to the securities owned for the period included in other income in the consolidated statement of operations is not significant. There were no transfers between Level 1 and Level 2 or between Level 2 and Level 3 during the year ended December 31, 2016.

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Notes to Consolidated Financial Statements

5. Related-Party Transactions

During the period ended December 31, 2016, the Company engaged in various transactions with the Parent and its affiliates. Balances with respect to related parties reflected in the December 31, 2016, consolidated financial statements, are as follows:

Cash and cash equivalents	\$18,925,438
Securities segregated under Federal and other regulations	4,509,009
Current income taxes receivable from Parent	1,412,174
Pension receivable from Parent	1,169,130
Deferred income taxes payable to Parent	6,271,221
Payable to Parent	1,579,554
Expense paid to related parties	90,007,620
Pension and other employee benefit plan expense	12,354,724
Restricted stock expense	1,058,022
Other income	8,129,076

Expense to affiliates arises from the use of STI's internal services and corporate real estate based on an agreed expense sharing agreements. Allocation methodologies vary for these services but are generally based on revenue, headcount or utilization. Expense attributable to pension and other employee benefit plans and restricted stock awards is further discussed in Note 8.

Other income primarily represents contractual referral fees from the SunTrust Private Wealth line of business. Further, at client request, STIS will purchase bank-sponsored or affiliate-underwritten products and sell them to the client for a commission.

During 2016, STIS began guaranteeing loans made by SunTrust Bank to certain key STIS employees. While ordinarily payable to SunTrust Bank on demand, generally STIS would not be called upon to make a payment on the loan unless the loan becomes past due or the employee ceases to be employed by STIS. In the event STIS is called upon to reimburse SunTrust Bank, the payment made to SunTrust Bank will be for any outstanding principal and interest. STIS will then have the ability to pursue reimbursement through other standard channels. As of December 31, 2016, the principal outstanding on these loans subject to STIS guarantee totaled \$7,329,992. During 2016, the Company was not called upon by SunTrust Bank to make a payment nor has it recorded a liability for future payments as they were neither estimable nor probable at December 31, 2016.

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Notes to Consolidated Financial Statements

6. Commitments and Contingencies

In the ordinary course of business, the Company is subject to regulatory examinations, investigations, and requests for information, and is also party to numerous civil claims and lawsuits. Some of these matters involve claims for substantial amounts. The Company's experience has shown that the damages alleged by plaintiffs or claimants are often overstated, based on novel or unsubstantiated legal theories, unsupported by the facts, and/or bear no relation to the ultimate award that a court might grant. Additionally, the outcome of litigation and regulatory matters and the timing of ultimate resolution are inherently difficult to predict. Because of these factors, the Company typically cannot provide a meaningful estimate of the range of reasonably possible outcomes of claims in the aggregate or by individual claim. On a case-by-case basis, however, reserves are established for those legal claims in which it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. In no cases are those accrual amounts material to the financial condition of the Company. The actual costs of resolving these claims may be substantially higher or lower than the amounts reserved.

Based on current knowledge, it is the opinion of management that liabilities arising from legal claims in excess of the amounts currently accrued, if any, will not have a material impact to the Company's financial condition, results of operations, or cash flows. However, in light of the significant uncertainties involved in these matters, and the large or indeterminate damages sought in some of these matters, there is a remote possibility that an adverse outcome in one or more of these matters could be material to the Company's results or cash flows for any given reporting period.

The SEC Division of Enforcement is investigating whether STIS committed fraud under the Investment Advisers Act of 1940 ("IAA") by purchasing mutual fund shares on behalf of clients that imposed an SEC Rule 12b-1 distribution fee on the investment when share classes which did not impose such a fee were available to such clients. On February 8, 2017, the SEC Staff informed the Company that it has made a preliminary determination to recommend that the SEC bring an enforcement action against the Company. The Company is researching the extent to which alternate mutual fund classes were available to its clients which did not impose Rule 12b-1 distribution fees, and other matters. The Company estimates that the amount of Rule 12b-1 distribution fees at issue was \$5 million or less over the period 2012-2015. If there is a finding or admission that the Company violated the antifraud provisions of the IAA, the Company could be subject to penalties. If there is a finding or admission that the Company violated the IAA with scienter, the Company's ability to earn certain investment advisory referral fees will be limited unless the SEC grants appropriate waivers. Beginning July 1, 2015, the Company began

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Notes to Consolidated Financial Statements

crediting 12b-1 fees related to all advisory accounts on a going forward basis. The Company is assessing the matter and how it intends to proceed. The Company is cooperating with the investigation and is in discussions with the SEC.

7. Guarantees to Third Parties

The Company uses a third-party clearing broker to clear and execute customers' securities transactions and maintain customer accounts. Under the agreement with the clearing broker, the Company agrees to indemnify the clearing broker for losses that result from a customer's failure to fulfill its contractual obligations. As the clearing broker's rights to charge the Company have no maximum amount, the Company believes that the maximum potential obligation cannot be estimated. However, to mitigate exposure, the Company may seek recourse from the customer through cash or securities held in the defaulting customer's account. The Company believes it is unlikely it will have to make material payments under this arrangement, and has not recorded any contingent liability in the financial statements for this indemnity. For the year ended December 31, 2016, the Company experienced no material net losses as a result of the indemnity. The clearing agreement expires in May 2020.

8. Employee Benefits

The Company participates in the pension plan and other employee benefit plans of STI for the benefit of substantially all employees of the Company. Costs of the pension plan are allocated to the Company based on its estimated pro rata share. Benefit information is not available from the actuary for individual subsidiaries of STI. The Company's expense allocated to the pension and other employee benefit plans was \$12,354,724 which is included in compensation and benefits expense in the accompanying consolidated statement of operations. The Company incurred \$120,091,409 in incentive-based compensation expense, which is included in compensation and benefits expense in the accompanying consolidated statement of operations.

The Parent provides stock-based awards through the SunTrust Banks Inc., 2009 Stock Plan (as amended and restated effective January 1, 2012) under which the Compensation Committee of the Board of Directors (the Committee) has the authority to grant stock options, restricted stock, and restricted stock units, of which some may have performance features to key employees of the Company. All incentive awards are subject to claw back provisions.

The Parent allocates stock option and restricted stock option expense to the Company. The Company's restricted stock expense for 2016 was \$1,058,022 which is also included in compensation and benefits expense in the accompanying consolidated statement of operations.

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Notes to Consolidated Financial Statements

At December 31, 2016, there was \$2,224,419 of unrecognized stock-based compensation expense related to restricted stock and stock options.

9. Income Taxes

The Company is included in the consolidated federal income tax return and various consolidated or combined state income tax returns filed by SunTrust Banks, Inc. In accordance with the Tax Allocation Agreement applicable to SunTrust Banks, Inc. and each of its subsidiaries, the Company's income taxes are calculated as if the Company filed separate income tax returns with appropriate adjustments to properly reflect the impact of a consolidated filing. Additionally the Company files its own separate state income tax returns in certain jurisdictions. The current and deferred portions of the income tax expense/(benefit) included in the consolidated statement of operations as determined in accordance with ASC 740, *Income Taxes*, are as follows:

	<u>2016</u>		
	Current	Deferred	Total
Federal	\$ (8,011,770)	\$ (121,641)	\$ (8,133,411)
State	(1,450,560)	7,730	(1,442,830)
	<u>\$ (9,462,330)</u>	<u>\$ (113,911)</u>	<u>\$ (9,576,241)</u>

A reconciliation of the income tax provision, using the statutory federal rate of 35%, to the Company's actual provision for income taxes is as follows:

	<u>2016</u>
Income tax at federal statutory rate of 35%	\$ (8,844,314)
State income taxes, net of federal benefit	(937,839)
Other	205,912
Total provision for income taxes	<u>\$ (9,576,241)</u>

Deferred income tax assets and liabilities result from differences between the timing of the recognition of assets and liabilities for financial reporting purposes and for income tax purposes.

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Notes to Consolidated Financial Statements

These assets and liabilities are measured using the enacted federal and state tax rates expected to apply in the periods in which the deferred tax assets or liabilities are expected to be realized. The significant components of the deferred tax assets and deferred tax liabilities, net of the federal impact for state taxes, as of December 31, 2016 were as follows:

	<u>2016</u>
Deferred Tax Assets:	
Employee benefits	\$ 7,837,722
Litigation accrual	\$ 1,929,953
State tax credit	59,909
Other	<u>20,337</u>
Total Deferred Tax Assets	<u>\$ 9,847,921</u>
Deferred Tax Liabilities:	
Prepaid expenses	\$ (15,860,985)
Fixed assets	<u>(258,156)</u>
Total Deferred Tax Liabilities	<u>\$ (16,119,141)</u>
Net Deferred Tax Liabilities	<u>\$ (6,271,220)</u>

The deferred tax assets include state tax credit carryforwards of \$59,909 as of December 31, 2016, that will expire, if not utilized, in 2018. The Company determined that a valuation allowance is not required for the federal and state deferred tax assets because it is more-likely-than-not these assets will be realized.

No unrecognized tax benefits have been recorded, and no corresponding interest or penalties have been accrued. The Company continually evaluates the unrecognized tax benefits associated with its uncertain tax positions. The Company does not expect a significant change in its unrecognized tax benefits within 12 months of this reporting date.

The Company is included in the consolidated federal income tax return and various consolidated or combined state income tax returns filed by SunTrust Banks, Inc. Additionally, the Company files its own separate state income tax returns and local tax returns in certain

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Notes to Consolidated Financial Statements

jurisdictions. SunTrust Banks, Inc.'s federal income tax returns are no longer subject to examination by the Internal Revenue Service for taxable years prior to 2011. With limited exceptions, the various consolidated or combined state income tax returns filed by SunTrust Banks, Inc., in which the Company is included, along with the Company's separate income tax returns, are no longer subject to examination by state and local taxing authorities for taxable years prior to 2012.

10. Net Capital Requirements

Rule 15c3-1 of the Securities Exchange Act of 1934 (the Rule) requires the Company to maintain minimum net capital, as defined. At December 31, 2016, the Company was in compliance with the net capital requirements of the Rule. At December 31, 2016, the Company, on a standalone basis, had net capital, as defined, of \$38,124,633, which was \$35,956,139 in excess of the required net capital of \$2,168,494. The Company's ratio of aggregate indebtedness to net capital was 0.85:1 at December 31, 2016, which is below the 15:1 maximum allowed. A reconciliation between total assets, liabilities and equity of STIS presented in the FOCUS to the consolidated financial statements is presented below.

	Per FOCUS (Unaudited)	STAS	Eliminations /Other	Consolidated
Total assets	\$ 163,123,693	\$ 281,835	\$ (281,835)	\$ 163,123,693
Total liabilities	32,567,784	-	-	32,567,784
Total stockholder's equity	130,555,909	281,835	(281,835)	130,555,909

11. Subsequent Events

The Company evaluated subsequent events through the date its consolidated financial statements were issued. Effective January 1, 2017, STIS transferred its investment advisory business into STAS and then proceeded to dividend its ownership in STAS to its Parent. The dividend to the Parent had no impact to net capital. In conjunction with the dividend, goodwill of approximately \$12,400,000 transferred to STAS as well. During 2016, revenue associated with the investment advisory business at STIS totaled \$124,736,272. STIS personnel will continue to provide sales and administrative services to STAS in 2017 and STIS will record as revenue fees charged to STAS for these services. On January 27, 2017, the Company filed a Form ADV W to de-register itself as a Registered Investment Advisor, but will continue to be regulated by FINRA and the SEC.

Supplemental Information

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

**Schedule I – Computation of Net Capital and Aggregate Indebtedness Pursuant to
Rule 15c3-1 of the Securities and Exchange Commission**

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

2017-01-26 10:29AM EST

Status: Accepted

PART II

BROKER OR DEALER

SUNTRUST INVESTMENT SERVICES, INC.

as of 12/31/16

COMPUTATION OF NET CAPITAL

1. Total ownership equity (from Statement of Financial Condition - Item 1800)	\$	130,555,909	3480
2. Deduct: Ownership equity not allowable for Net Capital	(3490
3. Total ownership equity qualified for Net Capital		130,555,909	3500
4. Add:			
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital			3520
B. Other (deductions) or allowable credits (List)			3525
5. Total capital and allowable subordinated liabilities	\$	130,555,909	3530
6. Deductions and/or charges:			
A. Total non-allowable assets from			
Statement of Financial Condition (Notes B and C)	\$	91,407,945	3540
1. Additional charges for customers' and non-customers' security accounts			3550
2. Additional charges for customers' and non-customers' commodity accounts			3560
B. Aged fail-to-deliver:			3570
1. number of items			3450
C. Aged short security differences-less reserve of	\$		3460
number of items			3470
D. Secured demand note deficiency			3590
E. Commodity futures contracts and spot commodities - proprietary capital charges			3600
F. Other deductions and/or charges		20,018	3610
G. Deductions for accounts carried under Rule 15c3-1(a)(6), (a)(7) and (c)(2)(x)			3615
H. Total deductions and/or charges	(91,427,963	3620
7. Other additions and/or allowable credits (List)			3630
8. Net Capital before haircuts on securities positions	\$	39,127,946	3640
9. Haircuts on securities: (computed, where applicable, pursuant to 15c3-1(f)):			
A. Contractual securities commitments	\$		3660
B. Subordinated securities borrowings			3670
C. Trading and investment securities:			
1. Bankers' acceptances, certificates of deposit and commercial paper			3680
2. U.S. and Canadian government obligations		33,818	3690
3. State and municipal government obligations			3700
4. Corporate obligations			3710
5. Stocks and warrants			3720
6. Options			3730
7. Arbitrage			3732
8. Other securities		969,495	3734
D. Undue concentration			3650
E. Other (List)			3736
10. Net Capital	\$	38,124,633	3750

OMIT PENNIES

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

2017-01-26 10:29AM EST
Status: Accepted

BROKER OR DEALER

SUNTRUST INVESTMENT SERVICES, INC.

as of 12/31/16

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A

11. Minimal net capital required (6-2/3% of line 19)	\$	2,168,494	3756
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	250,000	3758
13. Net capital requirement (greater of line 11 or 12)	\$	2,168,494	3760
14. Excess net capital (line 10 less 13)	\$	35,956,139	3770
15. Net capital less greater of 10% of line 19 or 120% of line 12	\$	34,871,894	3780

COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. liabilities from Statement of Financial Condition	\$	32,527,392	3790
17. Add:			
A. Drafts for immediate credit	\$	3800	
B. Market value of securities borrowed for which no equivalent value is paid or credited	\$	3810	
C. Other unrecorded amounts (List)	\$	3820	3830
18. Deduct: Adjustment based on deposits in Special Reserve Bank Accounts(15c3-1(c)(1)(vii))	\$		3838
19. Total aggregate indebtedness	\$	32,527,392	3840
20. Percentage of aggregate indebtedness to net capital (line 19 divided by line 10)	%	85.32	3850
21. Percentage of aggregate indebtedness to net capital after anticipated capital withdrawals (line 19 divided by line 10 less item 4880 page 12)	%	85.32	3853

COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

Part B

22. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of net capital computation including both brokers or dealers and consolidated subsidiaries' debits	\$	3870
23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note(A)	\$	3880
24. Net capital requirement (greater of line 22 or 23)	\$	
25. Excess net capital (line 10 less 24)	\$	3910
26. Percentage of Net Capital to Aggregate Debits (line 10 divided by line 17 page 8)	%	3851
27. Percentage of Net Capital, after anticipated capital withdrawals, to Aggregate Debits item 10 less Item 4880 page 12 divided by line 17 page 8)	%	3854
28. Net capital in excess of the greater of: 5% of combined aggregate debit items or 120% of minimum net capital requirement	\$	3920

OTHER RATIOS

Part C

29. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1 (d)	%	0.00	3860
30. Options deductions/Net Capital ratio (1000% test) total deductions exclusive of liquidating equity under Rule 15c3-1(a)(6), (a)(7) and (c)(2)(x) divided by Net Capital	%		3852

NOTES:

- (A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
1. Minimum dollar net capital requirement, or
 2. 6-2/3% of aggregate indebtedness or 2% of aggregate debits if alternate method is used.
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand notes covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.
- (C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Schedule I – Computation of Net Capital and Aggregate Indebtedness
Pursuant to Rule 15c3-1 of the Securities and Exchange Commission
Schedule of Non Allowable Assets

December 31, 2016

Non-marketable securities	\$ 7,282
Furniture, equipment, and leasehold improvements	1,164,816
Commissions receivable	2,369,708
Goodwill	42,706,365
Prepays and other assets	45,159,774
Total nonallowable assets	<u>91,407,945</u>

There are no material differences between this computation and the Company's unaudited Form X-17A-5 as of December 31, 2016, filed on January 26, 2017.

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Schedule II – Computation of Determination of Reserve Requirements
Pursuant to Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2016

The Company is exempt from Rule 15c3-3 of the Securities and Exchange Commission as it relates to the computation of reserve requirements under paragraph (k)(2)(ii) of that rule.

SunTrust Investment Services, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

Schedule III – Information Relating to Possession or Control Requirements
Pursuant to Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2016

The Company is exempt from Rule 15c3-3 of the Securities and Exchange Commission as it relates to possession and control under paragraph (k)(2)(ii) of that rule.